

HB 741 TAX REFORM PROPOSAL

By Rep. Jim Peterson

This proposal contains: (1) substantial property and income tax relief, (2) provides for a more balanced tax structure, and (3) generates new revenue that is paid largely by non-residents. The reduction in tax revenue from property tax and income tax relief is replaced by a 4% Retail (Consumptive) Sales Tax beginning January 1, 2006 and exempts groceries, health care, housing, utilities, medicine and fuel.

	FY2006 Partial	FY2007 Partial	FY2008 Implemented
New Revenues			
4% Retail Sales Tax: Exempt Groceries, Health Care, Utilities, Housing, Fuel and Medicine – Implementation January 1, 2006	\$240.9	\$499.6	\$525.0
Less Sales Tax Collection Costs --Vender Allowance	(\$3.4)	(\$6.9)	(\$7.0)
--5% Non-Collection	(\$9.3)	(\$19.6)	(\$20.6)
--Administration	(\$10.0)	(\$4.4)	(\$4.2)
Less Rental Cars & Accommodations Tax in SB 407	(\$6.7)	(\$14.2)	(\$14.9)
Net New Revenues	\$211.5	\$454.5	\$478.3
Tax Reductions - Reduced Revenues			
Eliminate the 101 Mill State Property Tax – January 1, 2006	\$93.5	\$193.3	\$199.5
Eliminate BASE Mill Levies Statewide – July 1, 2006	\$ 0	\$104.9	\$104.9
Replace SB 407 - January 1, 2007. Implement Flat Tax @ 5.75 with personal exemption increased to \$5,990 and exclude 50% of capital gains from Income Tax		\$35.1	\$74.1
Low Income Tax Credit		\$25.0	\$25.0
Total Tax Relief	(\$93.5)	(\$358.3)	(\$391.1)
NET REVENUE	\$118.0	\$96.2	\$74.8

4% Retail Consumptive Sales Tax

A 4% sales tax would be implemented by the legislature, effective as soon as possible, on consumer goods and services. Items exempt are groceries, medicine, utilities, fuel, health care and housing, plus those items that are predominantly or direct production inputs (rather than consumption items).

Eliminate the 101 Mill State Property Tax

Montana property taxpayers continue to express dissatisfaction with the level of property taxes. Eliminating the 101 statewide mills January 1, 2006 reduces property taxes by \$193.3 million.

DISTRIBUTION REQUESTED

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Eliminate BASE Mill Levies--Reduce Local Property Tax Statewide

Property taxes would be reduced by an additional \$104.9 million by reducing the permissive mill levies. The mill levy reduction is approximately 57 mills (\$1.84 billion taxable values divided into \$104.9 million.) The \$104.9 million covers the 80% school K-12 local property tax levies.

Reduce Capital Gains Tax

Currently capital gains are included as taxable income. Under this proposal, 50% of capital gains would be excluded from taxable income.

Income Tax Relief and Simplification

Individual income taxes would be restructured starting January 1, 2006. The personal exemption is raised to \$5,990 per person. Other deductions including the standard deduction would remain the same. Currently, all households (either filing jointly or two taxpayers filing separately) receive a standard deduction of at least \$2,900. Therefore the average household size of 2.5 would pay no income tax on income up to \$17,875. Federal income taxes would not be deductible. Income above exemptions and deductions would be taxed at a flat 5.75% rate. This income tax relief and simplification would reduce income tax revenue by approximately \$74.1 million for calendar year 2007. The low income tax credit reduces revenue by \$25.0 million. This proposal would (1) provide total state income tax relief for people with low income, (2) reduce the top marginal tax rate promoting a more business friendly environment, and (3) reduce the number of taxpayers who need to itemize.

Appropriation for K-12 Schools

This would fully fund the base budget for all K-12 schools in Montana with the reminder of school funding left to locally voted mill levies.

Vote of the People

The affective date of this proposal would be January 1, 2006 and the proposal would terminate Dec. 31, 2009. The bill would require a vote of the citizens in November 2008, to terminate or continue the sales tax beyond the sunset date.

SUPPORTING NOTES

Exportation: Approximately 12% of the sales tax is paid by out of state consumers or about \$63 million with the Idaho language. This offsets the Sales Tax Collection Costs and new revenue. New revenue is generated largely from non-residents.

Regressivity: The sales tax was designed to minimize the regressivity by exempting groceries, health care, utilities, fuel and medicine. At least the first \$17,875 of income for a typical family of 2.5 is not taxed. The property tax reduction substantially reduces residential property taxes.

Constitutional Amendment. Companion legislation would have to be passed prohibiting the State of Montana from imposing a state property tax without a statewide vote of the people. Only local voted mill levies would be allowed under this proposal.

Fiscal 2008. The FY 2008 numbers are the FY 2007 numbers fully implemented. They are shown to illustrate what the package looks like when fully implemented. The sales tax will probably grow faster than property tax. There is some margin of error risk in the sales tax estimate.

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